

TAX TIME 1999

TAX PACKAGES

The Internal Revenue Service will send about 59 million income tax packages this year. The mailout costs about \$9.7 million for printing and \$10.9 million for postage, for an average cost of just under 35 cents per package. Most people will get their tax packages in early January. The IRS expects to receive around 126 million tax returns in 1999, with continued growth in filing by telephone and by computer.

Nearly 25 million tax packages contain no tax forms. These TeleFile packages invite recipients to file by telephone. The packages include Customer Service Numbers, used to "sign" the returns, and a "tax record" which helps the taxpayer prepare for the call and serves as a record of filing. TeleFile is available for taxpayers who do not have dependents, whether they are single or married persons filing jointly.

Responding to privacy concerns, the IRS has dropped the taxpayer's social security number (SSN) from the name label in the tax package. Taxpayers should still use the name labels to help ensure a correct mailing address, but must put their SSNs on the tax forms. Each spouse's SSN must be entered on a joint return.

This year, the IRS is sending postcards instead of forms to about 8 million taxpayers who used a computer to prepare or file their tax returns last year. The IRS is inviting them to be part of a pilot program for paperless e-filing. The mailing includes e-file Customer Numbers (ECNs) that the taxpayers will use to electronically "sign" their returns before transmitting them. The ECN eliminates the signature form that would otherwise be required. The mailing also has a reply postcard for taxpayers to request that the IRS send them a regular tax package.

The IRS is again sending a payment voucher, Form 1040-V, with all Form 1040 tax packages. Taxpayers should mail the vouchers with their payments. The vouchers help the IRS to process payments more efficiently and accurately.

Forms and publications are available via computer from the IRS Web site at www.irs.ustreas.gov or the Internal Revenue Information Services bulletin board at 703-321-8020. The IRS TaxFax offers forms and instructions by return fax -- call 703-368-9694 from a fax machine.

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TAXES: WHAT'S NEW FOR '98?

- **Child Tax Credit** -- Taxpayers may claim a child tax credit of up to \$400 for each eligible dependent under the age of 17. The total credit is reduced by \$50 for each \$1,000 -- or part thereof -- of income above \$75,000 (\$110,000 for joint returns, \$55,000 for married persons filing separately). The child tax credit normally cannot be more than the tax liability, with exceptions for some taxpayers who have three or more qualifying children.
- **Education Credits** -- The Hope credit and the lifetime learning credit are based on tuition and related fees paid for the taxpayer, spouse, or an eligible dependent. A taxpayer may claim only one of these education credits for each eligible student in a single tax year. The credits are not available for taxpayers with incomes above \$50,000 (\$100,000 for joint returns). Dependents, and married persons who file separately, cannot claim the education credits.

The Hope credit applies for only the first two years of post-secondary education. The maximum credit is \$1,500, on tuition expenses of \$2,000 or more. Both the payment and start of the related academic period must have been after 1997.

The lifetime learning credit, which began July 1, 1998, is available for any level of higher education. The credit is 20 percent of the tuition paid for all eligible students, with an annual maximum credit of \$1,000 per tax return.

- **Student Loan Interest Deduction** -- Taxpayers may deduct up to \$1,000 of interest paid on a qualified student loan, but only during the first 60 months of the loan's repayment schedule. A taxpayer does not have to itemize deductions to claim this benefit, but cannot be claimed as a dependent, nor be a married person filing separately. The deduction is not available for those with incomes above \$55,000 (\$75,000, for a married couple filing jointly).
- **Education IRA** -- Taxpayers may use this as a vehicle to save for college. The account beneficiary must be under age 18 when the contribution is made and the annual limit is \$500 per beneficiary. The contribution is not deductible and is not reported on the donor's tax return. Earnings on the account are tax-deferred and will become tax-free if used for qualifying higher education expenses.
- **Deducting IRA Contributions** -- Higher income limits for deducting IRA contributions apply to workers covered by an employer retirement plan: \$40,000, \$60,000 for a married person filing jointly. If only one spouse is covered by a plan, the other spouse may make deductible IRA contributions if their joint income is under \$160,000.

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- **Roth IRA** -- While taxpayers cannot deduct contributions to this retirement account, they will not have to pay taxes on withdrawals if it has been five years since they first opened a Roth IRA and they are age 59½ or the withdrawal is because of disability, death, or a first-time home purchase (\$10,000 limit). A person may convert a traditional IRA to a Roth IRA without penalty, and include the taxable amount in that year's income as though it were a distribution. For conversions done in 1998, the taxpayer may spread the taxable amount equally over the four-year period 1998 through 2001.
- **Capital Gains Tax Rates** -- The lowest maximum tax rates on capital gains now apply to assets held for more than one year, rather than 18 months. This shorter holding period applies to all assets sold in 1998. The rates are:
 - 20% for most gains, but 10% for gains that would be in the 15% tax bracket;
 - 25% for gains resulting from the depreciation of real estate;
 - 28% for gains on collectibles and qualified small business stock.

All taxpayers with capital gains will have to use Schedule D (Form 1040). They will no longer report capital gain distributions from mutual funds on Schedule B.

- **Sale of Residence** -- Taxpayers will not have to report the sale of a residence on their tax forms unless they had a taxable gain. If a person owned and used a home as a principal residence for two of the five years preceding the sale, up to \$250,000 of gain may be excluded (\$500,000 on a joint return). This tax break may be used only once every two years. A taxpayer who fails to meet the two-year residency requirement because of a change in health, employment, or unforeseen circumstances may prorate the maximum exclusion by the percent of the two-year requirement met. This proration also applies for any person who had a residence on August 5, 1997, and sells it before August 5, 1999.
- **Self-Employed Health Insurance Deduction** -- Self-employed persons may deduct up to 45% of their health insurance premiums for every month they were not eligible to participate in an employer-sponsored health plan.
- **Standard Mileage Rates** -- You may deduct 32½ cents a mile for all business miles driven, up one cent from 1997. The rate for charitable contributions rose two cents, to 14 cents per mile. The rates for medical and moving expenses (10 cents per mile) are unchanged.
- **Payment of Tax Due** -- Taxpayers who are sending a check for their tax owed should make it payable to the United States Treasury, not the Internal Revenue Service, and should not staple the check to the tax return.

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- **Estimated Tax Penalty** -- There is generally no penalty if the balance due on the tax return is less than \$1,000, including any household employment taxes.

INFLATION ADJUSTMENTS FOR 1998

The filing requirements, personal exemption, standard deduction and maximum Earned Income Credit amounts are adjusted each year for inflation.

- The 1998 gross income **filing requirements** are:

Single	\$ 6,950
Head of household	\$ 8,950
Married filing jointly	\$ 12,500
Married filing separately	\$ 2,700
Qualifying widow(er)	\$ 9,800

Different amounts apply if the taxpayer or spouse is age 65 or older, or if the taxpayer can be claimed as a dependent on someone else's return. There are also other specific situations which require the filing of a return, such as when the net earnings from self-employment are \$400 or more.

- The **personal exemption** amount for 1998 is \$2,700 -- \$50 more than last year. Higher income taxpayers may have to reduce the personal exemption amount they claim if their adjusted gross income exceeds:

Single	\$ 124,500
Head of household	\$ 155,650
Married filing jointly or Qualifying widow(er)	\$ 186,800
Married filing separately	\$ 93,400

These taxpayers use a worksheet in the tax package to figure their exemption.

- The increased **standard deduction** amounts for 1998 are:

Single	\$ 4,250
Head of household	\$ 6,250
Married filing jointly or Qualifying widow(er)	\$ 7,100
Married filing separately	\$ 3,550

Different amounts apply if the taxpayer or spouse is blind or is age 65 or older, or if the taxpayer can be claimed as a dependent on someone else's return.

- The **Earned Income Credit** limits for 1998 are:

	Income Limit	Maximum Credit
One qualifying child	\$ 26,473	\$ 2,271
Two or more qualifying children	\$ 30,095	\$ 3,756
No qualifying children	\$ 10,030	\$ 341

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